



Department of Insurance
State of Arizona
Captive Insurance Division
Telephone: (602) 364-4490
Facsimile: (602) 364-3989

JANICE K. BREWER
Governor

2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7269
www.azinsurance.gov

GERMAINE L. MARKS
Director of Insurance

CERTIFICATE OF AUTHORITY APPLICATION FOR A CAPTIVE INSURANCE COMPANY

Before submitting the application, first follow the steps to the Application Process to Form a Captive Insurer enumerated in our Reference Guide.

After reviewing your pre-application submission and participating in a pre-application meeting (if necessary), we will confirm with you that it is appropriate to move to the application phase. Please proceed as follows. Note some steps should occur **before** the application is submitted to avoid delays and confusion.

- **Check name availability** for the captive with Ms. Maidene Scheiner, Administrative Assistant, at (602) 364-4490 (A.R.S. § 20-1098.02).
- **Submit** the original and two copies of the **Articles of Incorporation** to Maidene Scheiner. If acceptable, the Department will stamp the Articles and return them to you to file directly with the Arizona Corporation Commission (ACC). For ACC filing information, please go to www.azcc.gov/divisions/corporations/filings/forms.
- Complete the application sections in a free-form narrative format to allow sufficient opportunity for full explanation of your responses.
- Read and follow all of the directions below. Repeat all the application headings, titles and alpha/numeric format identified below when creating the sections and sub-sections of the application binders you submit with your application.
- Respond to all questions or requests for information. Do not indicate "N/A" without specifying why the question, heading, or section is not applicable. Do not hesitate to call us if a question or request for information is unclear and/or you have special circumstances.
- **Submit the original and three copies** of all information and supporting documents in four separate three-ring binders formatted with appropriate indices and tabs for sections and subsections as described herein. Failure to adhere to these guidelines will delay processing and may result in rejection of your application materials.
- Note an **application to redomesticate** an existing licensed captive to Arizona requires additional items and may also change the nature and content of your response to some items in the application. See the current Reference Guide for captives on our website for more information. Because of the existence of another regulatory jurisdiction, and the additional coordination and communication involved, completing the application process may take longer than it otherwise would.

- The importance of submitting a complete, well-organized, thorough, and transparent application package with most, if not all, items in their finalized form cannot be overstated. As applicable, finalized and/or signed originals of submitted and superseded draft or unsigned versions should be expedited to us when available. Incomplete, unclear, and/or inconsistent submissions cause inefficiencies and unnecessary delays in the application review process.
- The current version of the application has incorporated references to specific Arizona Statutes germane to particular questions or items requested. This convenience serves to more explicitly address some of the legal aspects of the application and also provides some indication of the purpose of the item. When compliance with Statute is not self-evident in the application, please provide clarifying explanation(s). It may be useful to scrutinize A.R.S. 20-1098 Definitions before, and while, completing the application as well. The fact that some items do not reference a Statute does not imply there are none that apply or that the item is less important. It also does not mean only the noted Statute(s) applies to an item; there may be others.
- Forward all of the forms and documents in one package to:

Maidene Scheiner
 Arizona Department of Insurance
 Captive Insurance Division
 2910 N. 44th St., Suite 210
 Phoenix, Arizona 85018-7269

SECTION A: GENERAL INFORMATION

1. Name of proposed captive (A.R.S. § 20-1098.02).
2. Principal office address in Arizona of the proposed captive (A.R.S. § 20-1098.01.E.2.).
3. Address in Arizona where captive books and records will be maintained, if different from 2. above (A.R.S. § 20-1098.16).
4. Name, address and phone number of the contact person for this application.
5. Name and address of Statutory Agent for service of process (A.R.S. § 20-1098.01.E.3.).
6. Parent(s) of proposed captive (A.R.S. § 20-1098.01.G.7.).
 - a) Name(s) of parent(s).
 - b) Net worth of parents(s).
 - c) Address(es) of parent(s).
 - d) OSHA Industry Group category and two-digit and expanded codes of the organization's primary industry (A.R.S. § 20-1098.23.A.6(d)).
7. Name(s) and addresses of the beneficial and/or ultimate owners of the proposed captive (A.R.S. § 20-1098.01.G.7.).
 - a) Specify percent of ownership.
 - b) Explain relationships among all owners.
8. Provide an organizational chart or charts and a brief narrative explanation of the nature of each affiliated (or relevant non-affiliated) entity's business or role, its organization type, the relationships between the parents, the captive and any other parties to be insured by the captive, and the transaction description(s) and flow(s) among the entities.
9. Provide the financial statements of the parent(s) (A.R.S. § 20-1098.01.G.7.).
 - a) Provide recent 10K, audited, or personal financial statements of the entities or individuals. If audited financials are not prepared, then provide unaudited. Do not refer us to a website to satisfy this requirement.
 - b) If the direct parent is a new entity, a holding company, and/or financially small, provide financial statements for at least the next substantive upstream company.
10. Identify type of proposed captive (pure, risk retention group, industry group, association, agency, protected cell). For protected cell, please complete Supplemental Application, Captive Form 120, for each cell (A.R.S. § 20-1098, 20-1098.01, 20-1098.03, 20-1098.04).
11. Organizational form of proposed captive (stock, mutual, reciprocal, non-profit)(A.R.S. § 20-1098.01.F, 20-1098.04.).

12. Indicate whether the captive will write business directly, or as a reinsurer (A.R.S. § 20-1098.01.A-D.).
13. Identify proposed coverages and/or lines of business for the captive (A.R.S. § 20-1098.01.A-D.)
14. Submit Biographical Affidavits for each Director of the proposed captive (see Captive Form 101A)(A.R.S. § 20-1098.01.G.2).
15. Submit Biographical Affidavits for each Officer of the proposed captive (see Captive Form 101A)(A.R.S. § 20-1098.01.G.2).
16. Submit signed Conflict of Interest statements for each director and officer (see Captive Form 113) (A.R.S. § 20-1098.01.G.2).
17. Submit NAIC Company Code Application with submission (form available on our website). All captive insurers are assigned a NAIC Company Code.
18. Has any domicile declined, suspended, revoked, or taken administrative action on or against an application for any kind of insurance entity, any company or any individual associated with, or involved in this captive formation? If so, describe in detail the circumstances of the action and provide all related documentation (e.g. order of revocation, letter declining to accept application).
19. Proposed start-up date (should be no less than 45 days from submission of application). Highlight the expected initial coverage period proposed, if known.
20. Proposed fiscal year for the captive. Upon licensure, a captive annual report filing will be expected for a partial first year of operation.

SECTION B: BUSINESS PLAN AND SUPPORTING INFORMATION

Business Plan

1. Please provide a concise, but comprehensive, overview of the purpose(s) of the captive, its structure, ownership, financing, entities to be insured, lines of business, reinsurance program, etc. Do not rely on the attachments and exhibits to provide clarity to the Department's review and approval process (A.R.S. § 20-1098.01.G.3.). The reader should be able to understand the captive on at least a high level after reading the overview.
2. Applications for risk retention groups (RRGs) should **clearly explain the reasons for the proposed program and how its structure fully conforms and complies with the Liability Risk Retention Act** (A.R.S. § 20-1098.24, 20-2401-2413), for example:
 - a) All owners must be insured and all insureds must be owners.
 - b) Owners must ordinarily have some financial interest in the program over and above the premium and the owners should participate in the management and control of the RRG through participation in the Board of Directors and officer positions. They should understand the legal and regulatory environment and requirements in forming and maintaining a RRG, including the Holding Company Act, corporate governance, etc.
3. This application section should contain narrative, data or exhibits, including the following, even if the information may be duplicative of that provided in other sections of the application:
 - a) If the applicant is an association, provide its history, purpose and size of membership (A.R.S. § 20-1098.4-5).
 - b) Identify each line of coverage to be insured and, for each line, answer the following:
 - i) Citing specific Statute(s), indicate how each complies with, or is permitted, under applicable Arizona Statutes (A.R.S. § 20-1098.01.A-D.). If the captive will write "controlled, unaffiliated business", clearly indicate how the business meets the definition (A.R.S. § 20-1098.11, 20-1098.01.A.)
 - ii) Indicate whether the captive will write directly, or as a reinsurer. Indicate clearly whether the coverage is related to a self-insured program, self-insured retention or deductible reimbursement (A.R.S. § 20-1098.01.B-C, 20-1098.11). If assuming reinsurance, identify the known or likely fronting company.
 - iii) If the program involves a government agency-approved self-insurance program, indicate which state and agency (A.R.S. § 20-1098.01.B). Provide current evidence of agency approval.
 - iv) Expected gross annual premium by line of coverage or meaningful sub-line.
 - v) Expected net annual premium by line of coverage or meaningful sub-line.
 - vi) Indicate whether or not any existing exposures will be assumed or if only future risks are involved.

- c) Furnish copies of in-force Declaration Page(s) for both primary and excess/umbrella coverages equal to the proposed coverage limits for the captive.
- d) Provide hard copies of Claims and Loss Exhibits from insurance carriers or other sources for at least the past three years, preferably longer for long-tail lines. List and describe all claims in excess of \$100,000 and the corrective action taken to avoid future occurrences. If, based on the business plan, a higher or lower dollar threshold would clearly be more useful, use it instead. If loss data contains sensitive personal information, we can discuss options for managing the situation.
- e) Four-year financial projections (pro forma) showing expected and worst or adverse case scenarios, noting key assumptions, if not obvious. Relevant ratio analysis may also be helpful, e.g. combined, liquidity, premium to surplus, reserves to surplus, retained limits to surplus, etc.
- f) The amount of retained risk proposed—per loss and annual aggregates. Provide a visual representation of the program limits, retentions by line of business in one or more exhibits
- g) Outline reinsurance plans, if applicable. Visual aids in the form of bar charts are helpful, and/or use Captive Form 104 or a similar table (A.R.S. § 20-1098.11). If no reinsurance is planned, so state.
- h) Rates, pricing, and underwriting guidelines and procedures.
- i) Outline any notable or extraordinary loss control or safety programs (A.R.S. § 20-1098.01.G.4.).
- j) Specify the investment policy and the terms and conditions of any anticipated loan-backs (only pure captives may make loan-backs and certain captive types have more investment restrictions generally). If no formal policy statement is proposed, so state, and describe the initial cash management and investment approach to maintain liquidity and manage investment risk, etc. (A.R.S. § 20-1098.10, 20-531 thru 20-562, 20-1098.01.G.1.).
- k) Plans for dividend (or other funds) distributions apart from ordinary operating expenses.
- l) Furnish copies of all proposed coverage forms—even if you intend to use ISO forms.

Actuarial Feasibility Study

- 1) The feasibility study should adhere to the following guidelines:
 - a) Prepared on the actuary's letterhead.
 - b) Include a description of all materials the actuary reviewed and an explanation of how the feasibility study comports with the proposed business plan (e.g. risks, coverages, retentions, and whether the captive will write directly, cede, or assume business).
 - c) The review should cover 3-5 years worth of loss history, specific, if possible, to the insured and the business plan.
 - d) Describe the methodology used in preparing the feasibility study including confidence levels, credibility, expected results, worst and best case scenarios with premium and loss components.
 - e) Include conclusions on proper pricing.

SECTION C: LEGAL/ORGANIZATIONAL INFORMATION

- 1) Provide certified copies of the captive's Articles of Incorporation (original certification by the Arizona Corporation Commission), Bylaws (original certification by an officer of the corporation) and any other relevant organizational documents, including articles of organization or similar document. If formed as a reciprocal, see the relevant Statute for required documents (A.R.S. § 20-1098.01.E-F., 20-1098.04).
- 2) Include a copy of the Arizona Corporation Commission's Disclosure Statement and a duplicate original of the Statutory Agent Appointment as attached thereto.
- 3) Furnish an Affidavit of Publication indicating publication of the Articles of Incorporation at least three (3) times in a newspaper having general circulation in the (Arizona) county of the corporation's intended place of business.
- 4) Provide copies of all agreements between the captive and its manager, reinsurers and ALL other service providers (accountant, attorney, actuary, claims administrator, broker, etc.)(A.R.S. § 20-1098.01.G.5-6.)
- 5) Provide Minutes of all meetings of incorporators, directors, shareholders and committees to date.

SECTION D: FINANCIAL INFORMATION

1. Capitalization (if stock company, provide a copy of the Stockholder Register).
 - a) Amount of paid in capital and surplus (A.R.S. § 20-1098.03).
 - i) Indicate the statutory minimum for the proposed captive type, business plan, etc.
 - ii) Indicate the expected or intended additional (or total) initial and on-going minimum to be maintained, if different from the statutory minimum. (This may also be shown in the pro forma exhibits)
 - b) Type(s) and numbers of shares to be authorized.
 - c) Par Value of each share and selling price by type.
2. Funding (if Mutual or Reciprocal Company).
 - a) Amount of Contributed Surplus to Policyholders.
 - i) Indicate the statutory minimum for the proposed captive type, business plan, etc.
 - ii) Indicate the expected or intended additional (or total) initial and on-going minimum to be maintained, if different from the statutory minimum. (This may also be shown in the pro forma exhibits)
3. If you intend to use a Letter of Credit (LOC) for capitalizing or funding the captive, you must provide an irrevocable and unconditional LOC containing an evergreen clause payable to the Arizona Director of Insurance, to be held in trust for the protection of all policyholders, ceding insurers and payment of related expenses (A.R.S. § 20-1098.03.B). The LOC must meet the following requirements:
 - a) The LOC shall be issued or confirmed by a qualified United States financial institution as defined by ARS § 20-261.03.A. and shall comply with the requirements prescribed by the Director.
 - b) The captive insurer shall not be directly or contingently liable for any LOC comprising its capital or surplus and the captive may not pledge its assets as security for the LOC.
 - c) Use Captive 103 Irrevocable Letter of Credit form. Show the LOC amount as well as the name and address of the bank(s) or financial institution(s).
4. Provide an initial financial statement showing assets, liabilities, sources and type of financial support, signed under oath by the captive insurer's president and secretary. This may simply be a summarized balance sheet showing the actual (or proposed) initial capitalization and what it consists of, unless there has also been other activity.
5. Indicate the proposed accounting method to be used by the captive, e.g. GAAP, SAP, modified GAAP, etc. If modified GAAP, specify how modified and expected effects.
6. If applicable, provide copies of most recent independent CPA certified financial statements.
7. Complete and provide Bank Confirmation Form using Captive form 106 when initial funding is complete.

SECTION E: SERVICE PROVIDERS (A.R.S. § 20-1098.01.G.5-6.)

1. Captive Manager's name, address, phone number, fax number and contact person. Provide a complete management firm profile if this is the first Arizona captive for this proposed captive manager (form available on the website).
2. Attorney's name, address, phone number, fax number and contact person.
3. Certified Public Accountant's name, address, phone number, fax number and contact person.
4. Actuary's name, address, phone number, fax number and contact person.
5. Financial Institution or bank's name, address, phone number, fax number and contact person. Keep all operating funds in an Arizona bank or financial institution account.
6. Fronting insurer's name, address, phone number, fax number and contact person.
7. Claims Administrator name, address, phone number, fax number and contact person.
8. Reinsurance Broker name, address, phone number, fax number and contact person.

SECTION F: FEES

Type	Amount	Payable To
Articles of Incorporation	\$60.00	Arizona Corporation Commission
Charter Document (Bylaws)	\$75.00	Arizona Department of Insurance
Examiners' Revolving Fund	\$100.00	Arizona Department of Insurance
Initial Examination	\$Varies	Arizona Department of Insurance
License (1 st Year)	\$1,000	Arizona Department of Insurance
License (Renewal)	\$5,500	Arizona Department of Insurance
Ongoing Examinations	\$Varies	Arizona Department of Insurance

All fees are non-refundable regardless of whether the Department issues or declines a license (A.R.S. § 20-1098.01.J., 20-167, A.A.C. R20-6-2002).

SECTION G: CERTIFICATION

I certify that the information given in this application is true and correct and that all estimates given are true estimates based upon facts that have been carefully considered and assessed. Furthermore, I affirm that pursuant to A.R.S. § 20-1098.01, the proposed captive insurer will notify the Arizona Director of Insurance within thirty days of any material change in the information filed with this application.

If applicant is a Protected Cell Captive Insurer, I further acknowledge pursuant to A.R.S. § 20-1098.01.H.2 that all financial records of the Protected Cell Captive Insurer, including records pertaining to protected cells, shall be available for inspection or examination by the Director or the Director's designee.

Name _____ Date _____

Signature _____
(Director)

Subscribed and sworn to before me this _____ day of _____, 20_____

Signature of Notary Public _____

NOTARY SEAL: Notary Public authorized by law of the State of _____

My commission expires on _____